

ACTION
OCA 87-0597

OFFICE OF CONGRESSIONAL AFFAIRS
Routing Slip

	ACTION	INFO
1. D/OCA		X
2. DD/Legislation	X	
3. DD/Senate Affairs		X
4. Ch/Senate Affairs		
5. DD/House Affairs		X
6. Ch/House Affairs		
7. Admin Officer		
8. Executive Officer		X
9. FOIA Officer		
10. Constituent Inquiries Officer		
11. SA: [redacted]		
12.		

SUSPENSE

27 Feb 87

Date

Action Officer: [redacted]

Remarks:

20 Feb 87

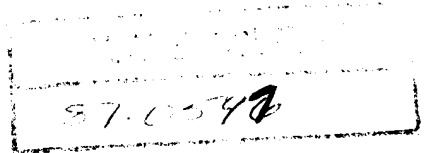
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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503



February 17, 1987

LEG.

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer -

Department of Agriculture-Sid Clemans-382-1272
Department of Commerce-Michael Levitt-377-3151
Department of Defense-Sam Brick-697-1305
Department of Education-Jack Kristy-732-2670
Department of Energy-Bob Rabben-586-6718
Department of Health and Human Services-F.White-245-7760
Department of Housing and Urban Development-E. Murphy-
755-7093
Department of the Interior-Stephen Britt-343-6706
Department of Justice-John Bolton-633-2141
Department of Labor-Seth Zinman-523-8201
Department of State-Lee Ann Howdershell-647-4463
Department of Transportation-John Collins-366-9293
Department of the Treasury-Rick Carro-566-8523
Council for Economic Advisers
Agency for International Development-Robert Lester-
647-8404
✓ Central Intelligence Agency-[redacted]
Environmental Protection Agency-S. Overman-382-5414
-General Services Administration-Al Vicchiolla-566-0563
National Aeronautics and Space Administration-J. Murphy-
453-1948
✓ National Science Foundation-Charles Herz-3578-9435
Small Business Administration-Richard Nelson-653-7581
Tennessee Valley Authority-Kenneth Gray-245-0101
-U.S. Information Agency-Marilyn Dexheimer-485-7976
Veterans Administration-Donald Ivers-233-3832
U.S. Postal Service-Fred Eggleston-268-2958

SUBJECT: OPM draft bill "To amend title 5, United States Code, to reform the financing of the Federal Employees Health Benefits Program, and for other purposes."

This bill carries out a provision in the President's Fiscal Year 1988 Budget. Expedited review by the date shown on page 2 is required.

The Office of Management and Budget requests the views of your agency on the above subject before advising on its relationship to the program of the President, in accordance with OMB Circular A-19.

A response to this request for your views is needed no later than Friday, February 27, 1987.

Questions should be referred to Todd Grams (395-6156), or to Hilda Schreiber (395-7362), the legislative analyst in this office.

Naomi R Sweeney
Naomi R. Sweeney for
Assistant Director for
Legislative Reference

Enclosures



Office of the Director

UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

Honorable George Bush
President of the Senate
Washington, D.C. 20510

Dear Mr. President:

The Office of Personnel Management (OPM) submits herewith a legislative proposal, "To amend title 5, United States Code, to reform the financing of the Federal Employees Health Benefits Program, and for other purposes." This proposal would change the method for determining the Government's contributions to the Federal Employees Health Benefits (FEHB) Program to reflect more accurately and equitably current trends in the FEHB Program. The proposal would also require the U.S. Postal Service and the District of Columbia government to assume their appropriate share of FEHB premiums, thereby eliminating the residual subsidy provided to those institutions out of appropriated funds. We request that this proposal be referred to the appropriate committee for early consideration.

Currently, the Government's contributions to the premiums of FEHB Program enrollees are based on a simple average of the premiums charged for high-option coverage by the six largest plans in the Program. This formula was established in 1970 when the overwhelming majority of enrollees had chosen to be in the high-option plans offered by the "big-six" providers. The FEHB Program now offers more than seven times as many plans as it did then, and there has been a steady shift to low-option plans along with a diminution of the concentration of enrollment in the "big-six" plans. This shift creates the need to revise the method for calculating the Government's contributions. Therefore, the proposal would change the formula to a weighted average that reflects the premiums of all FEHB plans and the distribution of enrollees among those plans. This change to a program-wide weighted average calculation for the Government contributions would result in an amount that reflects the current operation of the FEHB Program, and that is not skewed towards those plans and rates that no longer represent enrollment patterns in the Program.



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The proposal would also change the FEHB law with respect to the Federal Government contributions on behalf of U.S. Postal Service and District of Columbia government annuitants and their survivors. This change would eliminate these subsidies by the Federal Treasury to the U.S. Postal Service and the D.C. government.

A significant, though partial step in this direction was taken by Public Law 99-272, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). Prior to COBRA, FEHB law authorized annual appropriations for FEHB contributions on behalf of all annuitants and their survivors. For the first time, COBRA required that the Postal Service make the "Government contributions" on behalf of employees who retire from the Postal Service on or after October 1, 1986. COBRA made no provisions, however, for eliminating the subsidy for those annuitants who retired before October 1, 1986, or for survivor annuitants. Nor did COBRA address the continuing subsidy for the District of Columbia government's share of the "Government contributions" for its annuitants and their survivors. This proposal would completely eliminate this residual subsidy by requiring the U.S. Postal Service and the District of Columbia government to foot the bill for their share of FEHB coverage, as is required of all Federal agencies under the FEHB Program. While this proposal would have no effect on the premiums of Postal Service and D.C. government employees and annuitants, it would complete the FEHB funding reforms begun by COBRA, and would result in a more equitable assignment of financial responsibility for funding the FEHB Program.

We estimate that this proposal would result in the following savings to OPM:

(In Millions)

	<u>Weighted Average Formula</u>	<u>Elimination of Postal/D.C. Subsidy</u>	<u>Total</u>
FY 1988	\$ 79	\$ 423	\$ 502
FY 1989	\$104	\$ 485	\$ 589
FY 1990	\$113	\$ 544	\$ 657
FY 1991	\$130	\$ 630	\$ 760
FY 1992	<u>\$145</u>	<u>\$ 705</u>	<u>\$ 850</u>
5-YEAR TOTAL	\$571	\$2,787	\$3,358



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The Office of Management and Budget advises that enactment of this proposal would be in accord with the program of the President.

A similar letter is being sent to the Speaker of the House of Representatives.

Sincerely,

Constance Horner
Director

Enclosures



A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Federal Employees Health Benefits Financing Reform Act of 1987".

Sec. 2. (a) Section 8906(a) of title 5, United States Code, is amended to read as follows:

"(a) The Office of Personnel Management shall determine the average of the subscription charges in effect on the beginning date of each contract year with respect to self-only and self-and-family enrollments under this chapter, weighting the subscription charge for each plan by the number of self-only and self-and-family enrollments, as applicable, in that plan during the previous contract year, as determined by the Office. The subscription charge for a plan that did not operate under this chapter during such previous contract year shall not be included in such determination."

(b) Section 8906(g)(2) of title 5, United States Code, is amended to read as follows:

"(2) The Government contributions authorized by this section for health benefits for an annuitant shall be paid by--

"(A) the United States Postal Service, in the case of an annuitant whose eligibility for an annuity is based on a separation from service with the Postal

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Service or the Post Office Department, or who is a survivor of such an annuitant or a survivor of an employee who died while employed by the Postal Service or the Post Office Department; or

"(B) the government of the District of Columbia, in the case of an annuitant whose eligibility for an annuity is based on a separation from service with such government, or who is a survivor of such an annuitant or a survivor of an employee who died while employed by such government.".

Sec. 3. (a) The amendment made by section 2(a) of this Act shall take effect with respect to contract years beginning after the date of enactment of this Act.

(b) The amendment made by section 2(b) of this Act shall take effect on October 1, 1987.

SECTION-BY-SECTION ANALYSIS

To accompany a draft bill

"To amend title 5, United States Code, to reform the financing of the Federal Employees Health Benefits Program, and for other purposes."

Section 1. Short Title

The first section of the bill provides a title, the "Federal Employees Health Benefits Financing Reform Act of 1987."

Section 2. Financial Reforms

Subsection (a) amends 5 U.S.C. 8906(a) to change the formula used to determine the Government's contributions to enrollees' premiums under the Federal Employees Health Benefits (FEHB) Program. Currently, the Government's contributions are based on a simple average of the high-option coverage offered by the six largest FEHB plans. This subsection changes the formula for the Government's contributions to a weighted average that reflects the premiums of all FEHB plans and the distribution of enrollees among those plans. This change provides more equitable cost-sharing between the Government and its employees by reflecting the shift of enrollees from high-option to low-option coverage, and the dramatic growth in the number of FEHB plans.

Subsection (b) amends 5 U.S.C. 8906(g)(2) to provide that the U.S. Postal Service and the District of Columbia government, rather than the Federal Government, shall pay the Government contributions authorized under the Federal Employees Health Benefits Program for health benefits for annuitants of those entities. The Postal Service and the D.C. government would be required to make such contributions on behalf of: (1) annuitants whose eligibility for an annuity is based on separation from the Postal Service (or the Post Office Department) or the D.C. government; (2) survivors of such annuitants; or (3) survivors of employees who died while employed by the Postal Service (or the Post Office Department) or the D.C. government. This amendment would eliminate the remaining subsidies by the U.S. Treasury of the Postal Service and the District of Columbia government under the FEHB Program.



Section 3. Effective Date

Subsection (a) provides that the changes to the formula for determining the Government's contributions for the FEHB Program shall be effective for contract years beginning after the date of enactment of this Act.

Subsection (b) requires the U.S. Postal Service and the District of Columbia government to begin making the "Government contributions" on behalf of their annuitants and survivor annuitants beginning on October 1, 1987.

